

For: State and County Offices

Farm Credit Programs Guaranteed Writedowns Worksheet

Approved by: Deputy Administrator, Farm Credit Programs

Lou Anne Kling

1 Overview

A

Background

On October 13, 1995, FSA issued a procedure notice revising FmHA Instruction 1980-B to permit lenders to capitalize interest when restructuring Farm Credit Programs guaranteed loans. Capitalization of interest can only occur as long as the new principal amount after restructuring does not exceed statutory loan limits. As a result, the Farmer Programs Guaranteed Writedown Worksheet, which was issued with the Unnumbered Letters of May 19, 1995, and June 9, 1995, is obsolete.

B

Purpose

The purpose of this notice is to:

- issue a revised Farm Credit Programs Guaranteed Writedown Worksheet, FSA-1980-88, to permit the capitalization of interest
- provide additional guidance on completing writedowns under FmHA Instruction 1980-B, Section 1980.125.

Disposal

November 1, 1996

Distribution

State Offices; State Offices relay to County Offices and Ag Credit Teams

2 Action

A

State Office and Ag Credit Team

Use the Farm Credit Programs Guaranteed Writedown Worksheet in Exhibit 1 to document the decision to write down the guaranteed loan and pay the required loss claim.

Complete the worksheet before consenting to a writedown. File the completed worksheet in position 3 of the County Office case file.

B

Calculating Present Value for Guaranteed Writedowns

Present value is the present worth of the future payments discounted to the current date. Calculate present value for writedowns of guaranteed loans as follows.

Step	Action
1	Calculate the balance available to service the guaranteed loan by subtracting all other debt payments, regardless of lien priority, from the "Balance Available for Term Debt Repayment" on the lender's cash flow projections.
2	Determine the loan amortization factor based on the proposed term and the interest rate of the restructured loan after writedown.
3	Divide the balance available by the amortization factor. Example: Balance Available - \$10,000; Term - 15 annual payments; Rate of Interest - 10 percent fixed; Amortization Factor - .1315; Present Value - $\$10,000 / .1315 = \$76,045.63$
4	If the lender's cash flow projects that the balance available will definitely change during the loan repayment schedule, the present value should be calculated with an uneven payment stream.

Continued on the next page

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2 Action, Continued

Calculation Example

Situation: The borrower's cash flow projects that there will be an initial balance available of \$7,000. After 3 years, the balance available will increase to \$10,000. The loan will be rescheduled for 15 years at a 10 percent fixed annual rate of interest. The present value is calculated through the following steps.

Step	Action
1	Calculate the present value of the new balance available for the guaranteed loan for the new term of the loan. $\$10,000 / .1315 = \$76,045.63 \text{ (see subparagraph B.)}$
2	Divide the initial balance available by the amortization factor for the period this amount is available. $\text{Balance Available} - \$7,000; \text{ Amortization Factor for 3 years at 10 percent} - .4021; \text{ Present Value} - \$7,000 / .4021 = \$17,447.66$
3	Add the 2 values from step 1 and 2. $\$76,045.63 + \$17,447.66 = \$93,493.29$
4	Divide the new balance available by the same amortization factor used in step 2. $\$10,000 / .4021 = \$24,869.44$
5	Subtract the value in step 4 from the value in step 3. This will be the present value of uneven payments. $\$93,493.29 - \$24,869.44 = \$68,623.85$

D Writedowns of Multiple Loans

When 2 or more guaranteed loans are written down, cross-collateralize security, and write down or write off the loan with the shortest repayment term first.

Notice FC-9

2 Action, *Continued*

E

Ordering Forms

FmHA Instruction 1980-B and FmHA Instruction 1980-B, Section 1980.125 can be obtained from the KC Warehouse.

- Ag Credit Teams and County Offices shall order through the State Office.
 - State Offices shall submit ASCS-159 to the KC Warehouse.
 - FSA-1980-88 will be available on WordPerfect Forms Release No. 33.
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3 Contacts

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Contacts in National Office

Direct questions regarding this notice to the Farm Credit Programs Guaranteed Servicing Branch, Philip Elder or Bruce Mair, through the Area Office.

FSA-1980-88

REPRODUCE LOCALLY. Include form number and date on all reproductions.		
FSA-1980-88 (11-29-85)		U.S. DEPARTMENT OF AGRICULTURE Farm Service Agency
FARM CREDIT PROGRAMS GUARANTEED WRITEDOWN WORKSHEET		1. BORROWER NAME _____
		2. CASE NO. _____
		3. LOAN NO. _____
This worksheet must be used to document the decision to write down the guaranteed loan(s) and pay the required loss claim(s). The worksheet must be completed before consenting to a writedown.		
4. GUARANTEED LOAN BALANCE:		
A. Principal	B. Interest	C. Total
_____	_____	_____
5. RATES AND TERMS:		
A. Interest Rate for Restructuring	B. Restructuring Terms	C. Amortization Factor(s)
_____	_____	_____
D. Select Type of Amortization: <input type="checkbox"/> Annual <input type="checkbox"/> Monthly <input type="checkbox"/> Other (Explain): _____		
NOTE: Don't forget to move decimal point. If the amortization factor is from a table used to amortize a loan of \$1,000, the decimal point must be moved 3 spaces to the left.		
6. Balance Available:		
a. Less Payments to Other Creditors		(-) \$ _____
b. Available for Repayment on Guaranteed Loan		\$ _____
7. Present Value: (NOTE: Item 7 must be equal to or greater than item 14 in order to obtain debt writedown. If item 7 is less than item 14, the account should be liquidated.) If annual amortization (Item 6B divided by Item 5C) OR If monthly amortization (Item 6B divided by 12 months divided by Item 5C)		\$ _____
8. Market value of real estate security Estimated Time for Final Disposition (Not to exceed 90 days) _____		\$ _____
9. Expected Income or Value Increase for real estate security: (Rental Income, Appreciation or Other Income)		\$ _____
10. Market value of chattel security Estimated time for Final Disposition (Not to exceed 90 days) _____		\$ _____
11. TOTAL (Item 8 + 9 + 10)		\$ _____
12. Expenses or Value Decrease:		
a. Prior Liens including Unpaid Taxes or Assessments (attach statements or invoices)		\$ _____
b. Depreciation:		
(1) Real Estate		\$ _____
(2) Chattels		\$ _____
c. Essential Repairs (attach estimate)		\$ _____
d. Other costs:		
(1) Closing costs		\$ _____
(2) Surveys		\$ _____
(3) Freight		\$ _____

FSA-1980-88, *Continued*

FSA-1980-88 (Reverse) (11-29-95)

(4) Outside Environmental or Technical Assessments	\$
e. Advertising	\$
f. Commissions:	
(1) Real Estate	\$
(2) Equipment	\$
(3) Livestock	\$
g. Interest Cost: (Not to exceed 90 days)	\$
	\$
h. Hazardous Waste Removal (attach estimate)	\$
13. Total Costs (Add item 12a through item 12g)	\$
14. Net Recovery Value: (Item 11 minus item 13)	\$
[REDACTED]	
15. New Debt After Write-down (Item 7)	\$
16. Amount of Write-down (Item 4C minus item 15)	\$
% of Guarantee: _____	\$
17. Loss Payment to the Lender (Item 16 X Percent of Guarantee)	\$
18. REMARKS:	